

## **EXECUTIVE SUMMARY**

The Gem State's economy is expected to shift into a lower gear over the forecast horizon. Idaho nonfarm employment is forecast to rise 2.3% this year, 2.4% next year, 2.4% in 2003, and 2.2% in 2004. However, this is still faster than national employment growth, which is expected to increase 1.1% in 2001, 1.2% in 2002, 2.0% in 2003, and 1.7% in 2004. One of the reasons Idaho out performs the nation is because its manufacturing sector is expected to enjoy robust health while the nation's manufacturing sector sheds jobs. Idaho nominal personal income also advances faster than its national counterpart. However, the difference between these two measures may seem smaller than anticipated given the differences in job growth. This is because the national average annual wage is projected to rise faster than the Idaho average wage in every year of the forecast.

The U.S. economy is expected to slow this year, after posting an impressive gain in 2000. After years of clear skies, the current forecast calls for a cloudier outlook. DRI has identified four factors that could complicate the economy's journey over the short term. The first factor is high energy costs. The second factor is the stock market. Despite its recent slide, it remains overvalued and could be subject to further correction. The price/earnings ratio for the U.S. stock market stands near 23. Based on current earning estimates, the forward price/earnings ratio should be about 18, suggesting the market is still overvalued. The third factor is falling consumer spending. Swelling stock portfolios justified the shift in funds from saving to spending. The wealth effect also contributed to spending. Recent declines in the stock market have dampened consumer confidence and may cause a retreat from consumers' spendthrift spending. The fourth factor is the ballooning trade deficit. In the short run, these deficits do not present a problem. But in the long run, they will become increasingly hard to finance.

It should be noted that this Idaho economic forecast assumes that the Federal Reserve successfully slows the U.S. economy without plunging it into a recession. While there is a wealth of evidence to suggest that this is the most likely outcome, this result is by no means a given. In order to accomplish this, the nation's central bank would have pull off a rare second-straight soft landing. This maneuver is difficult enough even under the best circumstances. However, current conditions have complicated this policy. A policy misstep or unfortunate combination of factors could result in the economy performing below par. These results would be felt at the local level.

# IDAHO ECONOMIC FORECAST

## EXECUTIVE SUMMARY

JANUARY 2001

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>GDP (BILLIONS)</b>										
Current \$	7,401	7,813	8,318	8,790	9,299	9,997	10,552	11,185	11,939	12,680
% Ch	4.9%	5.6%	6.5%	5.7%	5.8%	7.5%	5.5%	6.0%	6.7%	6.2%
1996 Chain-Weighted	7,544	7,813	8,159	8,516	8,876	9,343	9,677	10,097	10,579	10,979
% Ch	2.7%	3.6%	4.4%	4.4%	4.2%	5.3%	3.6%	4.3%	4.8%	3.8%
<b>PERSONAL INCOME - CURR \$</b>										
Idaho (Millions)	22,869	24,174	25,217	26,986	28,582	30,767	32,708	34,688	36,899	39,177
% Ch	6.9%	5.7%	4.3%	7.0%	5.9%	7.6%	6.3%	6.1%	6.4%	6.2%
Idaho Nonfarm (Millions)	22,073	23,298	24,548	26,067	27,633	29,854	31,645	33,622	35,817	38,082
% Ch	6.6%	5.6%	5.4%	6.2%	6.0%	8.0%	6.0%	6.2%	6.5%	6.3%
U.S. (Billions)	6,201	6,547	6,937	7,391	7,790	8,290	8,768	9,260	9,840	10,431
% Ch	5.3%	5.6%	6.0%	6.5%	5.4%	6.4%	5.8%	5.6%	6.3%	6.0%
<b>PERSONAL INCOME - 1996 \$</b>										
Idaho (Millions)	23,359	24,172	24,736	26,190	27,259	28,642	29,964	31,309	32,684	33,911
% Ch	4.5%	3.5%	2.3%	5.9%	4.1%	5.1%	4.6%	4.5%	4.4%	3.8%
Idaho Nonfarm (Millions)	22,545	23,297	24,079	25,298	26,353	27,792	28,990	30,346	31,725	32,962
% Ch	4.2%	3.3%	3.4%	5.1%	4.2%	5.5%	4.3%	4.7%	4.5%	3.9%
U.S. (Billions)	6,334	6,547	6,805	7,173	7,430	7,718	8,033	8,358	8,716	9,029
% Ch	3.0%	3.4%	3.9%	5.4%	3.6%	3.9%	4.1%	4.0%	4.3%	3.6%
<b>HOUSING STARTS</b>										
Idaho	9,359	9,221	8,853	10,113	10,324	11,054	10,355	9,942	9,806	9,899
% Ch	-26.7%	-1.5%	-4.0%	14.2%	2.1%	7.1%	-6.3%	-4.0%	-1.4%	0.9%
U.S. (Millions)	1,361	1,469	1,475	1,621	1,676	1,599	1,536	1,629	1,735	1,767
% Ch	-5.9%	7.9%	0.4%	9.9%	3.4%	-4.6%	-3.9%	6.1%	6.5%	1.8%
<b>TOTAL NONFARM EMPLOYMENT</b>										
Idaho (Thousands)	477.4	492.6	508.7	521.5	539.1	558.6	571.3	584.8	599.1	612.5
% Ch	3.5%	3.2%	3.3%	2.5%	3.4%	3.6%	2.3%	2.4%	2.4%	2.2%
U.S. (Millions)	117.2	119.6	122.7	125.8	128.8	131.5	132.9	134.6	137.2	139.5
% Ch	2.7%	2.1%	2.6%	2.6%	2.3%	2.1%	1.1%	1.2%	2.0%	1.7%
<b>SELECTED INTEREST RATES</b>										
Federal Funds	5.8%	5.3%	5.5%	5.4%	5.0%	6.2%	6.3%	5.9%	5.8%	5.8%
Bank Prime	8.8%	8.3%	8.4%	8.4%	8.0%	9.2%	9.3%	8.9%	8.8%	8.8%
Existing Home Mortgage	7.8%	7.7%	7.7%	7.1%	7.3%	8.0%	7.1%	6.6%	6.5%	6.5%
<b>INFLATION</b>										
GDP Price Deflator	2.2%	1.9%	1.9%	1.3%	1.5%	2.2%	1.8%	1.6%	1.9%	2.3%
Personal Cons Deflator	2.3%	2.1%	1.9%	1.1%	1.8%	2.4%	1.6%	1.5%	1.9%	2.3%
Consumer Price Index	2.8%	2.9%	2.3%	1.6%	2.2%	3.4%	2.2%	1.7%	1.9%	2.4%

**National Variables Forecast by Standard and Poor's DRI**  
**Forecast Begins the THIRD Quarter of 2000**

# IDAHO ECONOMIC FORECAST

## EXECUTIVE SUMMARY

JANUARY 2001

	2000				2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>GDP (BILLIONS)</b>												
Current \$	9,753	9,946	10,063	10,228	10,355	10,486	10,615	10,751	10,927	11,088	11,269	11,456
% Ch	8.3%	8.2%	4.8%	6.7%	5.0%	5.2%	5.0%	5.2%	6.7%	6.0%	6.7%	6.8%
1996 Chain-Weighted	9,192	9,319	9,382	9,479	9,558	9,634	9,715	9,803	9,921	10,030	10,155	10,280
% Ch	4.8%	5.6%	2.7%	4.2%	3.4%	3.2%	3.4%	3.6%	4.9%	4.5%	5.1%	5.0%
<b>PERSONAL INCOME - CURR \$</b>												
Idaho (Millions)	30,149	30,530	31,022	31,366	32,018	32,487	32,930	33,396	33,926	34,435	34,934	35,456
% Ch	10.8%	5.2%	6.6%	4.5%	8.6%	6.0%	5.6%	5.8%	6.5%	6.1%	5.9%	6.1%
Idaho Nonfarm (Millions)	29,335	29,684	29,988	30,409	30,973	31,432	31,861	32,312	32,850	33,361	33,873	34,403
% Ch	14.0%	4.8%	4.2%	5.7%	7.6%	6.1%	5.6%	5.8%	6.8%	6.4%	6.3%	6.4%
U.S. (Billions)	8,106	8,242	8,354	8,458	8,606	8,718	8,820	8,927	9,063	9,192	9,322	9,461
% Ch	6.9%	6.9%	5.5%	5.1%	7.2%	5.3%	4.7%	4.9%	6.3%	5.8%	5.8%	6.1%
<b>PERSONAL INCOME - 1996 \$</b>												
Idaho (Millions)	28,287	28,498	28,803	28,978	29,487	29,807	30,119	30,443	30,808	31,150	31,474	31,802
% Ch	7.0%	3.0%	4.3%	2.5%	7.2%	4.4%	4.3%	4.4%	4.9%	4.5%	4.2%	4.2%
Idaho Nonfarm (Millions)	27,524	27,709	27,843	28,093	28,524	28,839	29,141	29,455	29,831	30,179	30,517	30,858
% Ch	10.1%	2.7%	1.9%	3.7%	6.3%	4.5%	4.3%	4.4%	5.2%	4.8%	4.6%	4.5%
U.S. (Billions)	7,606	7,694	7,758	7,814	7,926	7,999	8,067	8,138	8,231	8,315	8,399	8,486
% Ch	3.3%	4.7%	3.3%	2.9%	5.8%	3.8%	3.4%	3.5%	4.6%	4.2%	4.1%	4.2%
<b>HOUSING STARTS</b>												
Idaho	11,443	11,687	10,704	10,382	10,417	10,406	10,355	10,242	10,087	9,966	9,887	9,829
% Ch	49.2%	8.8%	-29.6%	-11.5%	1.4%	-0.4%	-1.9%	-4.3%	-5.9%	-4.7%	-3.1%	-2.3%
U.S. (Millions)	1.732	1.605	1.527	1.532	1.516	1.522	1.539	1.566	1.587	1.612	1.644	1.673
% Ch	10.5%	-26.3%	-17.9%	1.2%	-4.0%	1.6%	4.5%	7.1%	5.5%	6.6%	8.0%	7.5%
<b>TOTAL NONFARM EMPLOYMENT</b>												
Idaho (Thousands)	551.7	559.7	560.2	562.8	566.2	569.8	573.0	576.3	579.6	582.9	586.5	590.1
% Ch	4.3%	5.9%	0.4%	1.8%	2.4%	2.6%	2.3%	2.3%	2.3%	2.3%	2.5%	2.4%
U.S. (Millions)	130.6	131.6	131.6	132.1	132.4	132.8	133.1	133.3	133.7	134.2	134.8	135.4
% Ch	2.6%	2.9%	0.2%	1.5%	1.0%	1.1%	0.8%	0.8%	1.3%	1.4%	1.8%	1.9%
<b>SELECTED INTEREST RATES</b>												
Federal Funds	5.7%	6.3%	6.5%	6.5%	6.5%	6.5%	6.3%	6.0%	6.0%	5.9%	5.8%	5.8%
Bank Prime	8.7%	9.2%	9.5%	9.5%	9.5%	9.5%	9.3%	9.0%	9.0%	8.9%	8.8%	8.8%
Existing Home Mortgage	8.0%	8.2%	8.1%	7.6%	7.3%	7.2%	7.0%	6.8%	6.7%	6.6%	6.5%	6.5%
<b>INFLATION</b>												
GDP Price Deflator	3.3%	2.4%	2.0%	2.1%	1.6%	1.9%	1.6%	1.5%	1.7%	1.5%	1.6%	1.7%
Personal Cons Deflator	3.5%	2.1%	2.2%	2.0%	1.3%	1.5%	1.3%	1.3%	1.5%	1.5%	1.6%	1.8%
Consumer Price Index	4.3%	3.7%	3.1%	2.7%	1.8%	1.9%	1.6%	1.6%	1.7%	1.6%	1.7%	1.8%

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